

# **Pan-Asian Integration: Linking East and South Asia,**

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Led by the rapidly growing People's Republic of China (PRC) and India, East and South Asian economies are forging closer economic ties than ever before. As Asia is one of world's most dynamic regions, the process of Pan-Asian integration has stimulated a growing international debate on its impacts on members and outsiders.

This book analyses the pattern, determinants, impediments and benefits of closer of economic cooperation and integration between East Asia and South Asia. It makes a powerful and realistic case for Pan-Asian integration and makes recommendations. The critical issues covered by leading thematic experts include regional patterns of merchandise trade and investment, services trade, trade and monetary cooperation, infrastructure, logistics and trade facilitation, developments in ASEAN and SAARC, and a CGE model based analysis of the effects of alternative integration schemes.

The study finds that there has been a rapid growth in trade and investment linkages between the economies of East and South Asia, albeit from a low base. The value of total merchandise trade between East Asia and South Asia increased eight-fold to about \$140 billion between 1990 and 2007. The pattern of trade between the two sub-regions reflects factor endowments and levels of economic development, with East Asia typically exporting capital and technology-intensive goods to South Asia in return for imports of raw material and labour-intensive goods. Services trade between the two sub-regions has also increased particularly in information technology, education and tourism.

The pace of trade and investment integration between East and South Asia has been driven by the rise of PRC and India as regional growth poles, deepening regional production networks, falling trade barriers and logistics costs, improvements in infrastructure and the spread of free trade agreements (FTAs).

There are around 20 cross-regional FTAs at different stages of implementation. The study finds that consolidation of FTAs improves economic welfare compare to current bilateralism. The study estimates that a broad Pan Asian agreement (covering goods, services and trade costs) involving East and South Asian economies offers significant welfare gains to global income of around \$261 billion. All East and South Asian

members of such an agreement benefit from closer sub-regional cooperation and there is negligible negative impact on outsiders like the US and the EU.

Key impediments to realizing these gains include the persistence of tariff and non-tariff barriers, regulatory barriers affecting services trade, unfinished structural reforms, weaknesses in technological capabilities of local firms, variable logistics efficiency and insufficient trade-related infrastructure.

For trade-related infrastructure, the dominant mode for freight transport between East Asia and South Asia remains ocean transport. This situation is expected to continue for the foreseeable future. The effectiveness of ocean transport and other trade-related infrastructure to respond to growing East Asia-South Asia trade depends on ability to maintain cost competitiveness, quality of services and efficient logistics.

The global economic crisis is likely to have a mitigating impact on East Asia-South Asia economic relations in the short term from pressures such as falling international demand, reduced foreign investment, lack of trade finance, and risk of protectionism. Once a global recovery is underway, and as PRC and India increasingly become regional economic hubs, the medium term prospects for East Asia-South Asia integration seem bright. Indeed, strong East Asia-South Asia economic relations may form the lynchpin for sustained inclusive growth and prosperity in the Asia-Pacific.

To this end, apart from detailed country-specific recommendations, the study makes five important recommendations at the regional level to foster closer East Asia-South Asia integration in the future.

These include:

- (1) Countries should continue lowering trade and non-tariff barriers,
- (2) Investment in trade related infrastructure and streamlining of cross-border procedures offers a direct path to lower trade costs,
- (3) South and East Asian countries need to consolidate their FTAs into a broad region-wide arrangement,
- (4) De-regulation and policy reform in the services sector should be pursued, and
- (5) Trade liberalization efforts need to be embedded in a wider program of economic reforms.

Filled with new empirical data and analysis, this book is a must read for anyone interested in international trade and regional integration in Asia, the world's most dynamic region. It is hoped that the study will contribute to understanding and policy development for strengthening economic ties between East Asia and South Asia.